

Adjustments for Incorrect Appropriations in the Past (Past Adjustments):

Q61. Reya, Mona and Nisha shared profits in the ratio of 3:2:1. Profits for the last three years were 1, 40,000; 84,000 and 1, 06,000 respectively. These profits were by mistake distributed equally. The error is now to be corrected. Give the necessary rectification Journal entry.

Solution – Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Nisha's Capital A/cDr		55,000	
	To Reya's Capital A/c			55,000
	(Being Adjustment of Profit)			

Working Note 1:

Total Profit of last 3 year

$$= 1, 40,000 + 84,000 + 1, 06,000 = 3, 30,000$$

Particulars	Reya Capital A/c	Mona Capital A/c	Nisha Capital A/c	Firm
Wrong Distribution of Profit (Dr) (1:1:1)	(1,10,000)	(1,10,000)	(1,10,000)	3,30,000
Right Distribution of Profit (Cr) (3:2:1)	3,30,000 x 3/6 1,65,000	3,30,000 x 2/6 1,10,000	3,30,000 x 1/6 55,000	3,30,000
Net effect	55,000 (Cr)		55,000 (Dr)	

Q62. Azad and Benny are equal partners. Their capitals are 40,000 and 80,000 respectively. After the accounts for the year had been prepared, it was noticed that interest @ 5% p.a. as provided in the Partnership Deed was not credited to their Capital Accounts before distribution of profits. It is decided to pass an adjustment entry in the beginning of the next year. Record the necessary Journal entry.

Solution – Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Azad's Current A/cDr		1,000	
	To Benny's Current A/c			1,000
	(Being Adjustment of Profit)			

Working Note 1:

Interest on Capital

Azad - $40,000 \times 5/100 = 2,000$

Benny – $80,000 \times 5/100 = 4,000$

Adjustment of Profit:-

Particulars	Azad	Benny	Total
Interest on Capital (Cr)	(40,000 x 5%)	(80,000 x 5%)	
(12%)	2,000	4,000	6,000
- Less (Profit (Dr) wrongly Distributed)	3,000	3,000	6,000
Net effect	1,000 (Dr)	1,000 (Cr)	(Nil)

Q63. Ram, Mohan and Sohan sharing profits and losses equally have capitals of 1, 20,000, 90,000 and 60,000 respectively. For the year ended 31st March, 2022, interest was credited to them @ 6% p.a. instead of 5% p.a. Give adjustment Journal entry.

Solution –

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Ram Capital A/cDr		300	
	To Sohan Capital A/c			300
	(Being Interest on capital Wrongly credited now adjusted)			

Working Note 1:

Calculation of Interest on Capital 6% p.a

Interest on Ram Capital – 1, 20,000 x 6% = 7,200

Interest on Mohan Capital – 90,000 x 6% = 5,400

Interest on Sohan Capital – 60,000 x 6% = 3,600

Working Note 2:

Calculation of Interest on Capital 5% p.a

Ram – 1, 20,000 x 5% = 6,000

Mohan – 90,000 x 5% = 4,500

Sohan – 60,000 x 5% = 3,000

Adjustment of Profit:-

Particulars	Ram	Mohan	Sohan	Total
Interest on Capital				
Wrongly credited at 6% p.a. reversed	7,200	5,400	3,600	16,200
-Less Interest on capital credited 5% p.a.	6,000	4,500	3,000	13,500
Wrong Distribution (Dr)				
Right Distribution	1,200 (Dr)	900 (Dr)	600 (Dr)	2,700

(1:1:1)	900	900	900	2,700
Net effect	300 (Dr)		300 (Cr)	(Nil)

Q64. Ram, Shyam and Mohan were partners in a firm sharing profit and losses in the ratio of 2:1:2. Their capitals were fixed at 3, 00,000, 1, 00,000 2, 00,000. For the year ended 31st March, 2022, interest on capital was credited to them @ 9% instead of 10% p.a. the profit for the year before charging interest was 2, 50,000. Show your working notes and pass necessary adjustment entry.

Solution –

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Shyam Current A/cDr		200	
	Mohan Current A/cDr		400	
	To Ram Current A/c			600
	(Being Interest on capital adjusted)			

Working Note 1:

Calculation of Interest on Capital 10% p.a

Ram – 3, 00,000 x 10% = 30,000

Shyam – 1, 00,000 x 10% = 10,000

Mohan – 2, 00,000 x 10% = 20,000

Working Note 2:

Calculation of Interest on Capital 9% p.a

Ram – 3, 00,000 x 9% = 27,000

Shyam – 1, 00,000 x 9% = 9,000

Mohan – 2, 00,000 x 9% = 18,000

Adjustment of Profit:-

Particulars	Ram	Shyam	Mohan	Total
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Interest on Capital credited at 10% p.a.	30,000	10,000	20,000	60,000
Interest on Capital Wrongly Credited 9% p.a	27,000	9,000	18,000	54,000
Reversed Wrong Distribution (Cr)				
Right Distribution (2:1:2) (Dr)	3,000	1,000	2,000	6,000
	2,400	1,200	2,400	6,000
Net effect	600 (Cr)	200 (Dr)	400 (Dr)	(Nil)

Q 65 Profit earned by a partnership firm for the year ended 31st March, 2022 were distributed equally between the partners Pankaj and Anu without charging interest on Drawings. Interest due on Drawings was Pankaj 3,000 and Anu 1,000. Pass necessary adjustment entry.

Solution – Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Pankaj Capital A/cDr		1,000	
	To Anu Capital A/c			1,000
	(Being Interest on Drawings omitted now adjusted)			

Working Note 1:

Adjustment of Profit:-

Particulars	Mohan	Sohan	Total
Interest on Drawings debited (Dr)	3,000	1,000	4,000

Profit wrongly Distributed	2,000	2,000	4,000
Net effect	1,000 (Dr)	1,000 (Cr)	(Nil)

Q66 Ram, Mohan and Sohan were partners sharing profits in the ratio of 2:1:1. Ram withdrew 3,000 every month and Mohan withdrew 4,000 every month. Interest on drawings @ 6% p.a. was charged, whereas the partnership deed was silent about interest on drawings. Showing your working clearly, pass the necessary adjustment entry to rectify the error.

Solution –

Journal Entries

Date	Particulars	L.F	Dr	Cr
	Ram Capital A/cDr		180	
	Mohan Capital A/cDr		630	
	To Sohan Capital A/c			810
	(Being Interest on Drawing charged wrongly now rectified)			

Working Note 1:

Interest on Drawings Wrongly Debited

Ram – $(3,000 \times 12) = 36,000 \times 6/100 \times 6/12 = 1,080$

Sohan – $(4,000 \times 12) = 48,000 \times 6/100 \times 6/12 = 1,440$

Working Note 2:

$(1,080 + 1,440) = 2,520$

Ram – $2,520 \times 2/4 = 1,260$

Mohan – $2,520 \times 1/4 = 630$

Sohan = $2,520 \times 1/4 = 630$

Working Note 3:**Adjustment of Profit:-**

Particulars	Ram	Mohan	Sohan	Total
Interest on Drawing Wrongly debited (Cr)	1,080		1,440	2,520
Profit to be Credited (Dr)	1,260	630	630	2,520
Net effect	180 (Dr)	630 (Dr)	810 (cr)	(Nil)

Q67. Simrat and Bir are partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2024 after closing the books of account, their Capital Accounts stood at 4, 80,000 and 6, 00,000 respectively. On 1st May, 2023, Simrat introduced an additional capital of 1, 20,000 and Bir withdrew 60,000 from his capital. On 1st October, 2023, Simrat withdrew 2, 40,000 from her capital and Bir introduced 3, 00,000. Interest on capital is allowed at 6% p.a. Subsequently, it was noticed that interest on capital @ 6% p.a. had been omitted. Profit for the year ended 31st March, 2024 amounted to 2, 40,000 and the partner's drawings had been: Simrat – 1, 20,000 and Bir – 60,000. Compute the interest on capital if the capitals are (a) Fixed and (b) Fluctuating.

Solution – Calculation of Interest on capital (Fluctuation Capital)

Simrat's Opening Capital = Closing Capital – Additional Capital + Drawings out of Capital + Drawings out of profit

$$= 4, 80,000 - 1, 20,000 + 2, 40,000 + 1, 20,000$$

= 7, 20,000 – 1, 44,000

= 5, 76,000

Interest on Capital of Simrat's

1st April – 30th April = 5, 76,000 x 6/100 x 1/12 = 2,880

1st May – 30th Sept = 6, 96,000 x 6/100 x 5/12 = 17,400

1st Oct – 31st March = 4, 56,000 x 6/100 x 6/12 = 13,680

Interest on Simrat's Capital 33,960

Calculation of Bir's Interest on Capital:

Opening Capital of Bir = Closing Capital – Additional Capital + Drawing out of Capital + Drawing out of drawing – profit

= 6, 00,000 – 3, 00,000 + 60,000 + 60,000 – 96,000

= 3, 24,000

Interest on Capital of Bir's

1st April – 30th April = 3, 24,000 x 6/100 x 1/12 = 1,620

1st May – 30th April = 2, 64,000 x 6/100 x 5/12 = 6,600

1st Oct – 31st March = 5, 64,000 x 6/100 x 6/12 = 16,920

Interest on Bir's Capital 25,140

Q68. Mita and Usha are partners in a firm sharing profits in the ratio of 2:3. Their Capital Account as on 1st April, 2015 showed balances of 1, 40,000 and 1, 20,000 respectively. The drawings of Mita and Usha during the year 2015-16 were 32,000 and 24,000 respectively. Both the amounts were withdrawn on 1st January, 2016. It was subsequently found that the following items had been omitted while preparing the final accounts for the year ended 31st March, 2016:

a) Interest on Capital @ 6% p.a.

b) Interest on Drawings @ 6% p.a.

c) Mita was entitled to a commission of 8,000 for the whole year.

Showing your working clearly, pass a rectifying entry in the books of the firm.

Solution – Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Usha's Capital A/cDr		6,816	
	To Mita's Capital A/c			6,816
	(Being Adjustment made)			

Working Note 1: Adjustment of Profit:-

Particulars	Mita	Usha	Total
Interest on Capital (6%)	(1, 40,000 x 6%) 8,400	(1, 20,000 x 6%) 7,200	15,600
Interest on Drawings (1 st Jan to 31 st Mar)	(32,000 x 6/100 x 3/12) 480	(24,000 x 6/100 x 3/12) 360	840
Commission	8,000		
Right Share (Cr)	15,920	6,840	22,760
Wrong Share (Dr) (2:3)	(22,760 x 2/5) 9,104	(22,760 x 3/5) 13,656	
Net effect	180 (Dr)	630 (Dr)	(Nil)

Q69. A, B and C were partners. Their fixed capitals were 60,000 40,000 and 20,000 respectively. Their profit sharing ratio was 2:2:1. According to the Partnership Deed, they were entitled to interest on capital @ 5% p.a. In addition, B was also entitled to draw a salary of 1,500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to B .The net profits for the year, 80,000 were distributed in the ratio of their capitals without providing

for any of the above adjustments. Showing your workings clearly, pass the necessary adjustment entry.

Solution -

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	A's Current A/cDr		16,080	
	To B's Current A/c			14,253
	To C's Current A/c			1,827
	(Being omission of salary, Interest on capital, commission now profit corrected)			

Adjustment of Profit:-

Particulars	A	B	C	Total
Interest on Capital (5%)	(60,000 x 5%) 3000	(40,000 x 5%) 2000	20,000 x 5% 1000	6000
Salary(1500 x 12)		18000		18000
Commission (80,000-6000=74000 x5%)			3700	3700
Right Share (Cr) 80,000- (6000+18000+3700) =52300(2:2:1)	20920	20920	10460	52300
Wrong Share (Dr) (3:2:1)	23920 40,000	40920 26667	15160 13333	80,000

	16080 (Dr)	14253(cr.)	1827(cr.)	27700
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Dr Profit & Loss Appropriation Account

Cr

Particulars	Amount	Particulars	Amount
To Interest on capital A/c		By Net Profit	80,000
A Capital A/c			
(60,000 x 5%) 3,000			
B Capital A/c			
(40,000 x 5%) 2,000			
C Capital A/c _____			
(20,000 x 5%) 1,000	6,000		
To B's Salary A/c 1,500 x 12	18,000		
To Commission A/c			
(80,000 – 6,000) 74,000 x 5%	3,700		
To Profit Transferred to Partners Capital A/c			
A (52,300 x 2/5) 20,920	52,300		
B (52,300 x 2/5) 20,920			
C (52,300 x 1/5) 10,460			
	80,000		80,000

Working Note:

Profit Wrongly Distributed in Capital Ratio

$$A - 80,000 \times \frac{3}{6} = 40,000$$

$$B - 80,000 \times \frac{2}{6} = 26,667$$

$$C - 80,000 \times \frac{1}{6} = 13,333$$

Q-70

Pranav, Karan and Rahim were partners sharing profits in the ratio of 3: 2: 1. Their capitals were 5,00,00, 3,00,000, and 2,00,000 respectively as on 1st April, 2022. According to the partnership deed, they were entitled to an interest on capital at 10% p.a. For a the year ended 31st March 2022, a profit of 78,000 was distributed among the partners without providing for interest on capital.

solution

Particulars	pranav	karan	rahim	firm
Profit wrongly credited 3:2:1	39000	26000	13000	78000
Right distribution 5:3:2	39000	23400	15600	78000
		2600(dr.)	2600(cr.)	

Q71. On 31st March, 2024, after the closing of the accounts, capital Accounts of P, Q and R stood in the books of the firm at 40,000: 30,000 and 20,000 respectively. Subsequently, it was noticed that interest on capital @ 5% had been omitted. Profit for the year ended 31st March, 2023 was 60,000 and the partners drawings had been p 10,000 q 7,500 and R 4,500. Profit sharing ratio of P, Q and R is 3:2:1. Pass necessary adjustment entry.

Solution -

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	P's Capital A/cDr		300	
	To Q's Capital A/c			8
	To R's Capital A/c			292
	(Being Interest on capital was omitted now adjusted)			

Working Note 1:

Calculation of Opening Capital:

Particulars	P	Q	R
Closing Capital	40,000	30,000	20,000
Add: Drawing	10,000	7,500	4,500
Less: Profit 60,000 (3:2:1)	30,000	20,000	10,000
Opening Capital	20,000	17,500	14,500

Working Note 2:

Adjustment of Profit:-

Particulars	P	Q	R	Total
Interest on Capital (Cr)	(20,000 x 5%) 1,000	(17,500 x 5%) 875	(1,45,000 x 5%) 725	2,600
Wrong Distribution (3:2:1) (Dr)	(2,600 x 3/6) 1,300	(2,600 x 2/6) 866	(2,600 x 1/6) 433	2,600
Net effect	300 (Dr)	8 (Cr)	292	(Nil)

Q72. Mohan, Vijay and Anil are partners, the balances of their Capital Accounts being 30,000 25,000 and 20,000 respectively .In arriving at these amounts profit for the year ended 31st March, 2024, 24,000 had been credited to partners in their profit sharing ratio. Their drawings were 5,000 (Mohan), 4,000 (Vijay) and 3,000 (Anil) during the year. Subsequently, following omissions were noticed and it was decided to rectify the errors:

a) Interest on capital @ 10% p.a.

b) Interest on drawings: Mohan 250 Vijay 200 Anil 150

Make necessary Corrections through a Journal entry show your workings clearly.

Solution -

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Anil's Capital A/cDr To Mohan Capital A/c (Being Interest on capital and Interest on drawings omitted now adjusted)		550	550

Working Note 1:

Calculation of Opening Capital:

Particulars	Mohan	Vijay	Anil	Total
Capital at the end	30,000	25,000	20,000	75,000
Add: Drawing	5,000	4,000	3,000	12,000
Less: Profit	8,000	8,000	8,000	24,000
Capital at the beginning	27,000	21,000	15,000	63,000

Working Note 2:

Adjustment of Profit:-

Particulars	Mohan	Vijay	Anil	Total
Interest on Capital	(27,000 x 10%)	(21,000 x 10%)	(25,000 x 10%)	

(Cr)	2,700	2,100	2,500	6,300
Less: Interest on Drawings	250	200	150	600
Right Distribution	2,450	1,900	1,350	5,700
Wrong Distribution				
5,700 (1:1:1)	1,900	1,900	1,900	
Net effect	550(cr.)		550(Dr.)	

Q73. Mudit, Sudir and Uday are partners in a firm sharing profits in the ratio of 3:1:1. Their fixed capital balances are 4, 00,000, 1, 60,000 and 1, 20,000 respectively. Net profit for the year ended 31st March, 2018 distributed amongst the partners was 1, 00,000, without taking into account the following adjustments:

- Interest on capital @ 2.5% p.a.**
- Salary to Mudit 18,000 p.a. and commission to Uday 12,000**
- Mudit was allowed a commission of 6% of divisible profit after charging such commission.**

Pass a rectifying Journal entry in the books of the firm. Show workings clearly

Solution -

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Sudhir's Current A/cDr		6,000	
	To Mudit Current A/c			1,000
	To Uday Current A/c			5,000
	(Being some omission now rectified)			

Working Note 1:
Adjustment of Profit:-

Particular	Mudit		Sudhir		Uday		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Profit Wrongly Distribution in 1,00,000 (3:1:1)								
Interest on Capital (2.5%)	60,000		20,000		20,000			1,00,000
		10,000		4,000		3,000	17,000	
		(400,000 x 2.5%)		(1,60,000 x 2.5%)		(120,000 x 2.5%)		
Mudit Salary		18,000					18,000	
Uday Salary						12,000	12,000	
Mudit Commission 1,00,000 – (17,000 + 18,000 + 12,000) 1,00,000 – 47,000 53,000 x 6/106		3,000					3,000	
Profit Share 50,000 (3:1:1)		30,000		10,000		10,000	50,000	
Correct distribution		61,000		14,000		25,000	1,00,000	
	1,000 (Cr)		6,000 (Dr)		5,000 (Cr)			

Q74. Piya and Bina are partners in a firm sharing profits and losses in the ratio of 3:2 Following was the balance Sheet of the firm as on 31st March, 2016:

Liabilities	Amount	Assets	Amount
Capitals A/c		Sundry Assets	1,20,000
Piya 80,000			
Bina <u>40,000</u>	1,20,000		
	1,20,000		1,20,000

The profits 30,000 for the year ended 31st March, 2016 were divided between the partners without allowing interest on capital @ 12% p.a. and salary to Piya @ 1,000 per month. During the year, piya withdrew 8,000 and Bina withdrew 4,000. Showing your working notes clearly, pass the necessary rectifying entry.
Solution -

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Bina Capital A/c Dr		5,856	
	To Piya Capital A/c			5,856
	(Being Adjustment made)			

Working Note 1:

Calculation of Opening Capital:

Particulars	Piya	Bina
Closing Capital	80,000	40,000
Add: Drawing	8,000	4,000
Less: Profit (3:2)	18,000	12,000
Opening Capital	70,000	32,000

Working Note 2:*Adjustment of Profit:-*

Particulars	Piya	Bina	Total
Interest on Capital (12%)	(70,000 x 12%) 8,400	(32,000 x 12%) 3,840	12,240
Salary	12,000		12,000
			(30,000- 24,240)
Profit(3:2)	3,456	2,304	5,760
Right Share (Cr)	23,856	6,144	30,000
Wrong Share (Dr) (3:2)	18,000	12,000	30,000
Net Effect	5,856	5,856	

Q75. Naveen, Quadir and Rajesh were partners doing an electronic goods business in Uttarakhand. After the accounts of Partnership were drawn up and closed, it was discovered that interest on capital has been allowed to partners @ 6% p.a. for the years ending 31st March, 2017 and 2018, although there is no provision for interest on capital in the Partnership Deed. On the other hand,

Naveen and Qadir were entitled to a salary of 3,500 and 4,000 per quarter respectively, which has not been taken into consideration. Their fixed capitals were 4, 00,000, 3, 60,000 and 2, 40,000 respectively. During the last two years they had shared the profits and losses as follows:

Year Ended	Ratio
31 st March, 2017	3:2:1
31 st , March, 2018	5:3:2

Pass necessary adjusting entry for the above adjustments in the books of the firm on 1st April, 2018 Show your Workings Clearly

Solution –

Journal Entries

Date	Particulars	L.F.	Dr	Cr
	Rajesh Current A/cDr		17,800	
	To Naveen Current A/c			10,000
	To Qadir Current A/c			7,800
	(Being omission of salary wrong Interest on capital credited, now profit corrected)			

Adjustment Entries

Particular	Naveen		Qadir		Rajesh		Firm	
1 st Year	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Interest on Capital	24,000		21,600		14,400			60,000
Salary omitted		14,000		16,000			30,000	
Profit adjustment (3:2:1)		15,000		10,000		5,000	30,000	
2 nd Year								
Interest on Capital	24,000		21,600		14,400			60,000
Salary omitted		14,000		16,000			30,000	
Profit adjustment (5:3:2)		15,000		9,000		6,000	30,000	

	48,000	58,000	43,200	57,000	28,800	11,000	1,20,000	1,20,000
	10,000 (Cr)		7,800 (Cr)		17,800 (Dr)			

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